look forward to retirement!

Iowa Department of Administrative Services

Retirement Investors' Club (RIC)

403b Designated Roth Contributions Q & A

Q Can I make both 403b pre-tax elective and designated Roth contributions in the same year?

A Yes. You can make contributions to both a designated Roth account and a traditional, pre-tax account in the same year in any proportion you choose. However, the combined amount of all elective contributions made by an individual in any one year is limited by the 402(g) limit — $16,500 for 2009. An additional $5,500 in catch-up contributions for 2009 for persons 50 or older (and the 15 years-of-service catch-up available under 403b plans), can also be allocated between the traditional and designed Roth accounts.

Q Can my employer make Roth 403b contributions?

A No. All Roth 403b contributions are post-tax, and must therefore be made from salary deductions.

Q Does a new account need to be established under my 403b plan to receive my designated Roth contributions?

A Yes. Designated Roth contributions must be kept completely separate from previous and current 403b pre-tax elective contributions. A separate account must be established for each participant making designated Roth contributions.

Q What is a qualified distribution from a designated Roth account?

A A qualified distribution is generally a distribution made after a 5-taxable-year period of participation, and is either:
- made on or after the date the employee attains age 59½
- made on or after the employee's death, or
- attributable to the employee being disabled.

A qualified distribution from a designated Roth account is not includible in the employee's gross income.

Q What happens if I take a distribution from my designated Roth account before the end of the 5-taxable-year period?

A If you are eligible for a distribution under the proposed regulations, a nonqualified distribution is included in the distributee's gross income to the extent allocable to income on the contract (earnings) and excluded from gross income to the extent allocable to investment in the contract (basis). The amount of a distribution allocated to investment in the contract is determined by applying to the distribution the ratio of the investment in the contract to the designated Roth account balance.

Example: If a nonqualified distribution of $5,000 is made from an employee's designated Roth account when the account consists of $9,400 of designated Roth contributions and $600 of earnings, the distribution consists of $4,700 of designated Roth contributions (that are not includible in the employee's gross income) and $300 of earnings (that are includible in the employee's gross income).

Feature Comparisons of Roth 403b, Roth IRA, and Traditional 403b Retirement Accounts

FEATURE	DESIGNATED ROTH 403b ACCOUNT	ROTH IRA	TRADITIONAL, PRE-TAX 403b ACCOUNT
Contributions	Designated Roth employee elective contributions are made with after-tax dollars.	Roth IRA contributions are made with after-tax dollars.	Traditional, pre-tax employee elective contributions are made with before-tax dollars.
Income Limits	No income limitation to participate.	Income limits: • Married $166,000 • Single $105,000 (modified AGI).	Same as designated Roth 403b account. No income limitation to participate.
Maximum Elective Contributions	Combined employee elective contributions limited to: • $16,500 in 2009. ($22,000 for employees 50 or over).	Contribution limited to: $4,000 in 2008. ($5,000 for employees 50 or over.)	Same combined limit as designated Roth 403b account.
Taxation of Withdrawals	Withdrawals of contributions and earnings are not taxed provided they are a qualified distribution—the account is held for at least 5 years and made: • because of disability • after death, or • after attainment of age 59½.	Same as designated Roth 403b account; and can have a qualified distribu-tion for a first-time home purchase.	Withdrawals of contributions and earnings are subject to federal and most state income taxes provided they are eligible for a distribution due to: • After attainment of age 59½. • Separation of state employment • Disability • Hardship • after death
Required Distributions	Distributions must begin no later than age 70½, unless still working and not a 5% owner.	No requirement to start taking distributions while owner is alive.	Same as designated Roth 403b account